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C O N F I D E N T I A L MANAMA 000725

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SUBJECT: BAHRAIN MAY SIGN BIG IRAN GAS DEAL AT YEAR'S END

Classified By: CDA Robert S. Ford, reason 1.5 (b) and (d)

11. (C/NF) Bahraini CP Sheikh Salman bin Hamed told CDA on May 15 that Bahrain may conclude a major agreement to buy Iranian gas by the end of CY 2004. Bahraini demand for natural gas is increasing with projects such as the expansion of the aluminum smelter go forward. These projects are vital to Bahrain's economic development. Salman noted that he is chairing the government committee negotiating a new, long-term supply deal with a foreign supplier.

12. (C/NF) Bahrain has been exploring separately with Saudi Arabia, Qatar and Iran long-term supply agreements, the Crown Prince said. Saudi Arabia has informed Bahrain that it is no longer interested in a supply agreement for Bahrain. Thus, Bahrain is negotiating seriously with Qatar and Iran. Price will be the essential issue, he said. Commercial feasibility studies have concluded that the Bahraini industrial development projects using the natural gas will be commercially viable if Bahrain can secure a price below USD 1 per metric ton.

13. (C/NF) The Crown Prince cautioned that so far in the negotiations, the Iranians are offering a far superior deal. Monetizing their share of the North Dome gas field, they are offering the GoB a price of approximately USD 0.70-0.85 per metric ton. By contrast, the Qataris have linked the natural gas price to a crude oil benchmark price. At USD 18 per barrel, the Qatari gas will cost \$1.10 per metric ton; at nearly USD 40 per barrel, the gas will cost upwards of \$2.40. Thus, the Crown Prince concluded, the Iranians are offering a dramatically cheaper price.

14. (C/NF) CDA reminded the Crown Prince of U.S. Government views concerning Iran. The Crown Prince said that even in Bahrain there are great sensitivities about inking a deal with Iran that would involve 400-600 million cubic feet per day - nearly fifty percent of Bahrain's consumption. The price offered from Iran, however, was too good for Bahrain to ignore, he concluded. He said the negotiations are not yet finished with Qatar, but the GoB needs to make a decision in December 2004. He wanted the U.S. to understand Bahraini concerns ahead of time.

15. (C) Comment: It would be hard to overstate GoB sensitivities about Iran; senior Bahraini officials all view Iran as the single greatest threat to Bahraini security. The Crown Prince underlined the importance of price in the decision, and certainly much of Bahrain's industrial exports depend on cheap gas. It is possible he initiated this conversation to sensitize Washington early on to the potential Iranian deal. It is also possible the GoB is hoping we will weigh in with Doha to secure a cheaper offer from the Qataris.

FORD